LC Investment Playbook Weekly Update

27 May, 2022

2021
ASIAN PRIVATE BANKER®
AWARDS FOR DISTINCTION
BEST INDEPENDENT WEALTH MANAGER
WEALTH PLANNING SERVICES

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ASIAN PRIVATE BANKER®
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INVESTMENT ADVISORY

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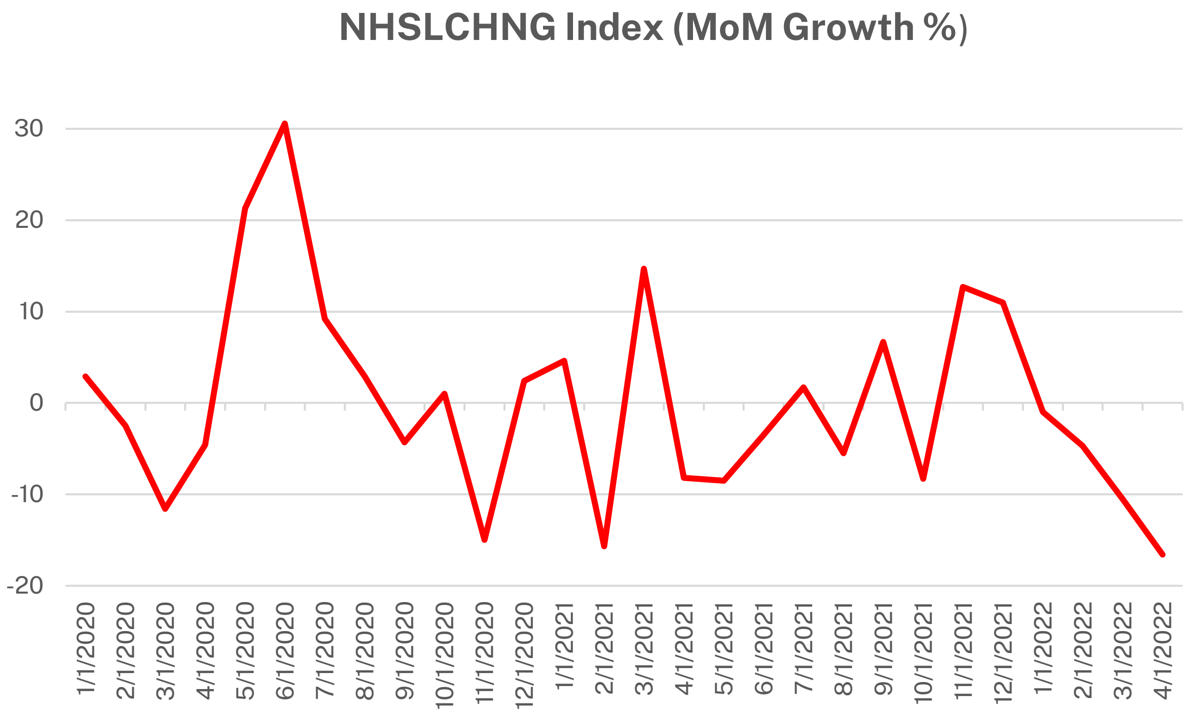
Macro Highlights

1

Faltering Growth



US New One Family Houses Sold Total Change MoM SA (%)

Source: U.S. Census Bureau, Bloomberg and Lighthouse Canton 25th May 2022

- Sales of new US homes plummeted in April by the most in nearly nine years, dented by the combination of high prices and a steep climb in mortgage rates.
- Purchases of new single-family homes decreased 16.6% to an annualized 591,000 pace, the weakest since April 2020, government data showed Tuesday. The figure fell well short of all estimates in a Bloomberg survey of economists, which called for a 749,000 rate.
- The average rate on a 30-year mortgage was 5.25% last week, up from around 3% at the end of 2021, Freddie Mac data show.

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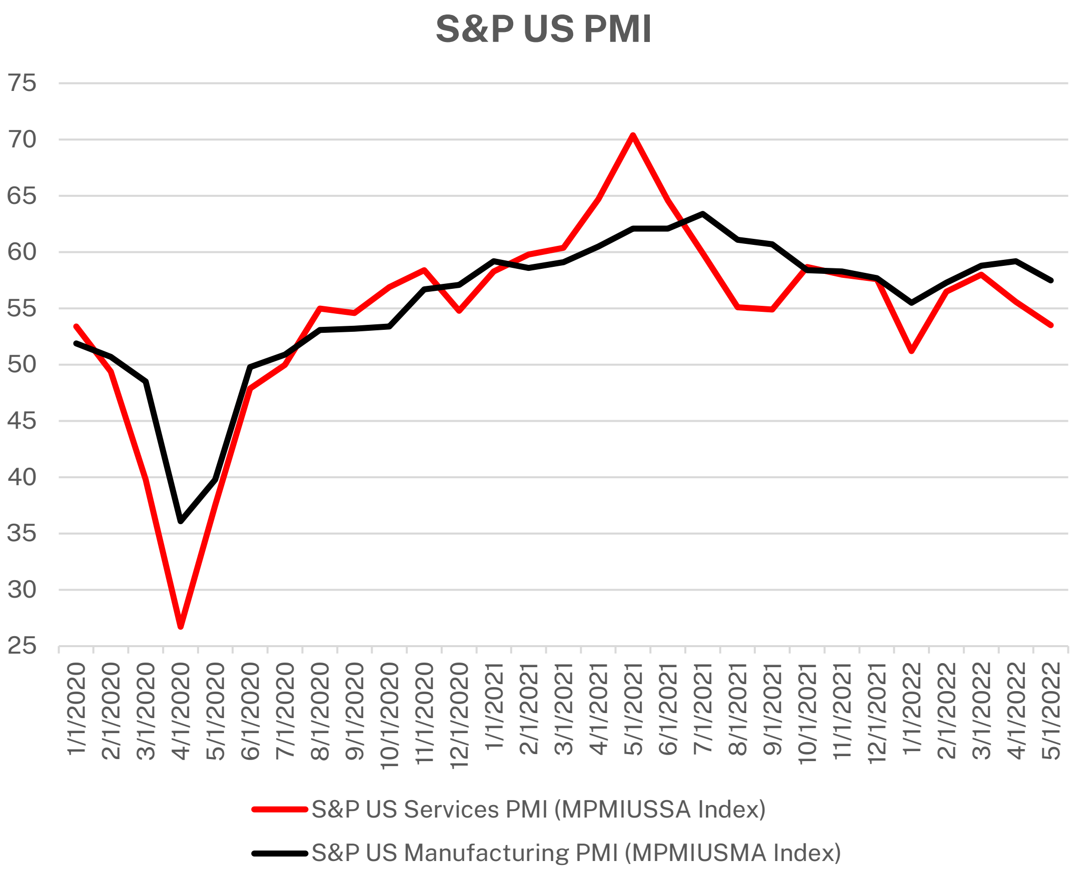
Dark Clouds Ahead- US Flash PMI



Source: S&P Global , Bloomberg and Lighthouse Canton 25th May 2022

- US business activity settled back to a four-month low in early May as costs ballooned and high selling prices tempered demand at service providers.
- The **S&P Global flash May composite purchasing managers** index slipped 2.2 points to 53.8 vs 56 prior. Readings above 50 indicate growth.
- At 57.5 vs 57.7 estimated, the **S&P Global index of US manufacturing** settled back to a three-month low in May. The new orders gauge eased, and production growth cooled. The **Services PMI** fell to 53.5 from 55.6 in April and 70.4, a year ago.

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Fixed Income Highlights

2

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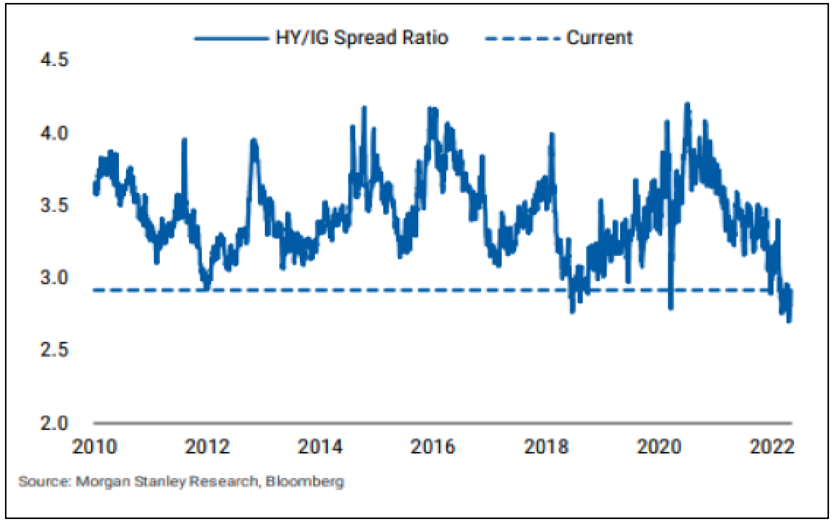
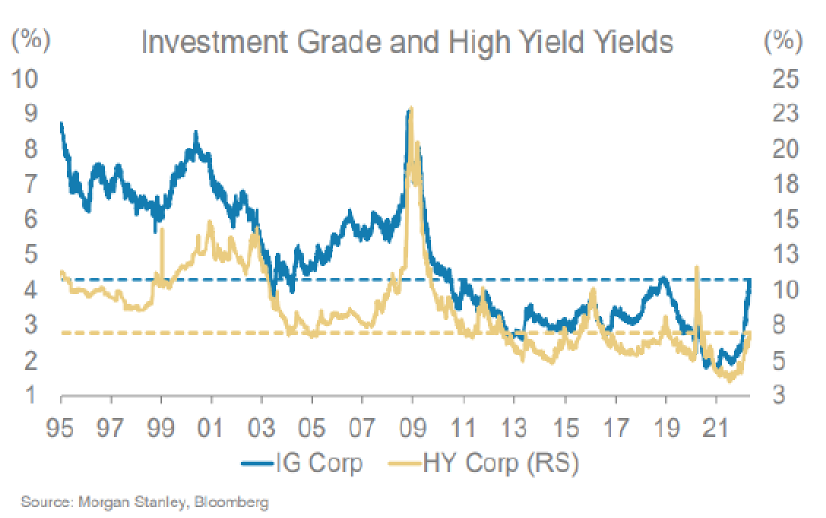
IG Yield at 10-Year High





Source: Morgan Stanley, May 2022

- As the market pricing in the interest rate hikes, there are increasing numbers of Investment Grade (IG) bonds trading at significant discounts to par.
- High yield bonds also had price corrections. But the HY/IG spread is still quite small. In terms of risk adjusted returns, IG bonds are now preferred to HY, considering where we are in the economic cycle.
- Short duration IG bonds, with bond yields over 4%, look attractive for buy-and-hold investors.

Fixed Income – Executive Summary

- Weak **home sales** in US point to the rate already proving itself as a burden and is one of leading indicators of a slowdown in the US economic growth. This coupled with faltering PMIs are sending us warnings of tougher times in the US.

- Flash PMIs in fact cooled across **Developed Markets** with Eurozone, Germany UK and US reporting moderation, albeit still elevated and expansionary, points to darker clouds ahead.

- In a surprise move**, the ECB** president Lagarde**,** indicated that they might start raising rates as early as this summer. What needs to be seen is how the fragile EU economies handle the tightening since a large part of the rising prices are owing to supply side dynamics.

Equity Highlights

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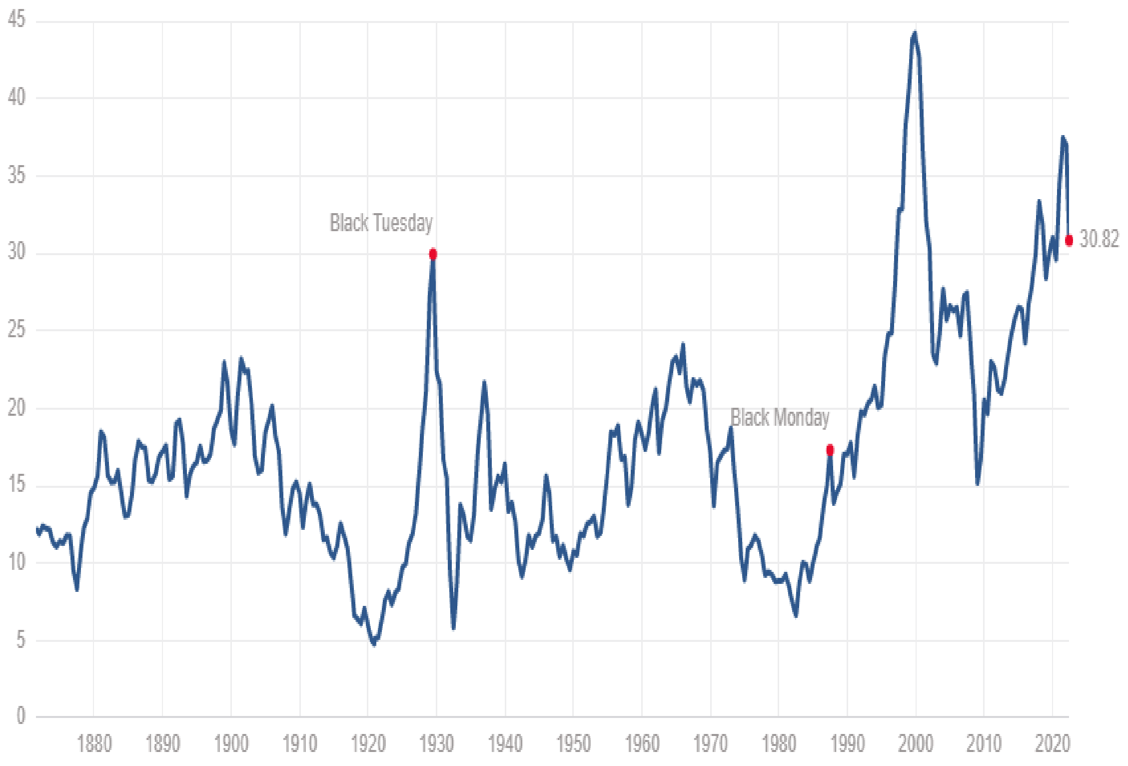
Equities have room to correct further (1/2)



Source: Robert J Shiller, 25th May 2022

- The cyclically adjusted price-to-earnings ratio (CAPE) is a valuation measure usually applied to the US S&P 500 equity market. It is defined as price divided by the average of ten years of earnings (moving average), adjusted for inflation. The ratio is used to gauge whether a stock is undervalued or overvalued by comparing its current market price to its inflation-adjusted historical earnings record.

- By historical standards, this ratio is still very expensive at 30.8x, a level surpassed only in 1929 and the late 1990s. The long term average of the CAPE ratio is much lower, at 16.95x.

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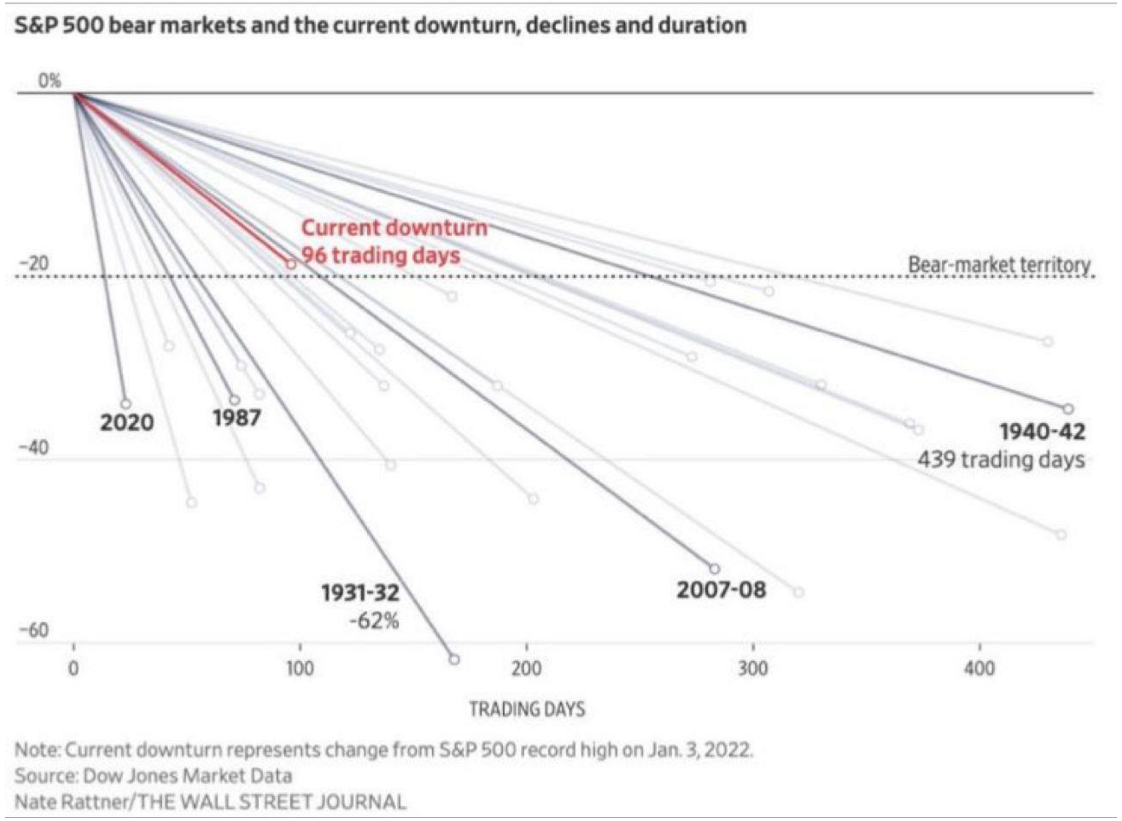
Equities have room to correct further (2/2)



- As of May 24th, the S&P 500 is down 17% year-to-date, whereas the Nasdaq 100 has corrected by 28%. Market participants are responding to the economic slowdown and the lower liquidity that the Fed is determined to cause. Investors do not see a recession yet, but are bracing for a slowdown.

- With China slowing down quickly and European economies in a stalemate, the odds of a recession in the US are rising. If/when a recession is confirmed in the US, global equities are likely to trade lower. Investors should remain cautious and avoid cyclical stocks.

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Equities – Executive Summary

- **The commitment by the Fed to achieve a (economic) “soft landing” to damper inflation has sent global equities lower this week. US and European stock markets are pricing in a 70% chance that the economy will slide into recession in the near-term, according to estimates by JPMorgan’s strategist. The bank cut its US GDP forecasts for this year and next, which is bad news for equities. The S&P 500 gained approximately 2% this week as of May 25th , as the market took some comfort from the Fed minutes that didn’t show an even more aggressive path being mapped to tackle elevated prices, though central banks remain steadfast in their resolve to douse inflation.**

In case you missed it:

- We remain very cautious as far as equities are concerned worldwide. There is no scarcity of reasons for investors to be concerned about the global growth backdrop:
  1. Major central banks have started to hike interest rates aggressively at a time of elevated uncertainty.
  2. Financial conditions are shifting from quantitative easing to quantitative tightening.
  3. The war in Ukraine is ongoing and continues to pose risks to energy supplies and global commodity prices.
  4. Surging prices threaten to dent both corporate profit margins and consumers’ purchasing power.
  5. The COVID-19 outbreak in China is negative for both domestic economic activity and global supply chains.
  6. Higher food prices lead to social unrest.

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